

State of Idaho

Legislative Services Office

Management Report

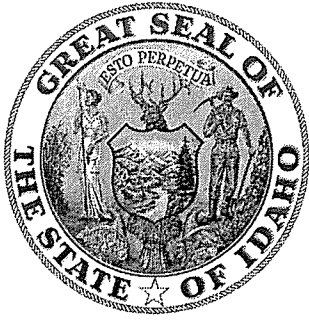
A communication to the Joint Finance-Appropriations Committee

**SUPERINTENDENT OF PUBLIC INSTRUCTION
DEPARTMENT OF EDUCATION**

FY 2005, 2006, and 2007

**Report IC17007
Date Issued: June 25, 2008**

Serving Idaho's Citizen Legislature



Don H. Berg, Manager

**Idaho Legislative Services Office
Legislative Audits Division**

**SUPERINTENDENT OF PUBLIC INSTRUCTION
DEPARTMENT OF EDUCATION**

SUMMARY

PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Office of the Superintendent of Public Instruction, Department of Education covering the fiscal years ended June 30, 2005, 2006, and 2007. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

FINDINGS AND RECOMMENDATIONS

There are three findings and recommendations in this report.

- 1) Salaries and wages charged to the Special Education Grant are not properly documented as required by federal regulations.
- 2) Interest of nearly \$4.9 million was not posted to the Public Education Stabilization Fund as required by Idaho Code.
- 3) Access to sensitive teacher certification information is not properly secured.

The complete findings are detailed on pages 1 through 3. A copy of the entire report is available at <http://www.legislature.idaho.gov/audit/index.htm>, or by calling 208-334-4832.

PRIOR FINDINGS AND RECOMMENDATIONS

There were no prior findings and recommendations.

AGENCY RESPONSE

The agency has reviewed the report and its complete responses are included in the Findings and Recommendations section of the report.

FINANCIAL INFORMATION

The following financial data is for informational purposes only.

SUPERINTENDENT OF PUBLIC INSTRUCTION – DEPARTMENT OF EDUCATION

Fund	Fund Name	Beginning	Plus	Plus	Less	Less	Ending
		Fund Balance/ Appropriation	Beginning Encumbrances	Receipts and Transfers-In	Disbursements and Transfers Out	Ending Encumbrances	Fund Balance/ Appropriations
0001	General Fund	\$9,924,600	\$0	\$3,386	\$9,634,993	\$288,140	\$4,853
0125	Indirect Cost Recovery	709,546	0	400,360	576,865	194,879	338,162
0150	Budget Stabilization Fund	0	0	2,500	2,174	0	326
0315	School District Bldg. Acct	2,626,322	0	46,383,431	21,095,051	0	27,914,702
0319	Driver Training Acct	3,097,547	0	1,857,691	1,822,990	0	3,132,248
0325	Public Instruction	734,631	0	1,092,583	1,124,061	0	703,153
0348	Federal Grant Fund	(40,325)	0	186,701,913	187,152,492	0	(490,904)
0349	Miscellaneous Revenue	48,043	0	839,619	643,004	158,688	85,970
0403	Loan and Grant Fund	0	0	0	0	0	0
0480	Data Processing Services	36,147	0	42,012	24,156	0	54,003
0481	Income Funds	17,445,589	16,403,844	1,467,321,758	1,361,303,908	19,483,834	120,383,449
	Pari-mutuel Distribution						
0485	Fund	0	0	20,640	0	0	20,640
0492	Loss Recovery	30,656	0	1,377	0	0	32,033
0660	Restricted Current	39	0	0	0	0	39
	Totals	\$34,612,795	\$16,403,844	\$1,704,667,270	\$1,583,379,694	\$20,125,541	\$152,178,674

OTHER INFORMATION

We discussed other issues which, if changed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and Office of the Superintendent of Public Instruction, Department of Education and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the Superintendent Tom Luna and his staff.

ASSIGNED STAFF

Eugene Sparks, CPA, CGFM, Managing Auditor

Jim Combo, CPA, In Charge Auditor

Eric Bjork, Staff Auditor

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FINDINGS AND RECOMMENDATIONS

FINDING #1

Salaries and wages charged to the Special Education Grant are not properly documented as required by federal regulations.

CFDA Title: Special Education Grant Cluster

CFDA # and Federal Award #:

84.027 – H027A040088, H027A050088, H027A060088

84.173 – H173A040030, H173A050030, H173A060030

Program Year: 2007

Federal Agency: U.S. Department of Education

Compliance Requirements: B – Allowable Costs/Cost Principles

Questioned Costs: Not Determinable

Federal regulations (Office of Management and Budget (OMB) *Circular A-87*) require that salaries and wages charged to federal grants must be documented by a detailed activity report, an approved allocation plan, or a semiannual certification for employees who work solely on one federal program.

Salaries and wages for all employees within the Special Education Division of the Department were charged to the Special Education Grant during fiscal year 2007; however, no semiannual certifications and no detailed activity reports were prepared. These certifications must identify the program and periods covered, and have the signature of the employee or a supervisor having firsthand knowledge of the work performed by the employee.

A total of \$766,012 in salaries and wages was charged to the Special Education Grant during fiscal year 2007, of a total disbursed for the grant of \$49,957,607. We are unable to confirm the allowability of salaries and wages due to the absence of appropriate documentation, which could result in federal penalties and sanctions.

RECOMMENDATION #1

We recommend that the Department properly document all payroll costs by preparing semiannual certifications for employees who work solely on one federal grant program, and require detailed time sheets for those employees who work on multiple activities.

AGENCY'S CORRECTIVE ACTION PLAN

Prior to the audit fieldwork by the Legislative Services Office, the State Department of Education became aware of the issue with the documentation of payroll costs charged to federal grants and immediately took steps to resolve it.

The fiscal staff at the Department began educating management and staff through a series of e-mails, mandatory trainings and all-staff meetings. The Department implemented policies and procedures to address the issue and has scheduled quarterly reviews of federal time reporting.

FINDING #2

Interest of nearly \$4.9 million was not properly coded to the Public Education Stabilization Fund as required by Idaho Code.

Idaho Code, Section 33-907 was amended during the special session in August 2006 to allow the Public Education Stabilization Fund to retain the interest earned on its fund balance. This change was made retroactive to January 2006.

The Department notified the State Treasurer's Office in January 2007 to move interest intended for the Stabilization Fund from the Public School Income Fund for the period January 2006 to January 2007 as a result of this change in code. However, this change in interest distribution was not carried forward, and no interest has been credited to the Stabilization Fund since January 2007. The monthly interest distribution reports received by the Department showed that interest intended for the Stabilization Fund continued to be credited to the Public School Income Fund, but neither the Department nor the State Treasurer's Office noticed this ongoing error. Although no interest earnings were lost, the coding of amounts to the wrong fund could potentially affect transfers or other requirements associated with these funds.

We have confirmed that nearly \$4.9 million in interest was not properly coded to the Public Education Stabilization Fund during the period February 2007 to December 2007. An adjustment was made in January 2008 to correct this error, but we are concerned that the Department's financial monitoring procedures are incomplete or not properly followed.

RECOMMENDATION #2

We recommend that the Department evaluate the financial monitoring procedures to ensure that all transaction cycles and events are included and that these procedures are followed.

AGENCY'S CORRECTIVE ACTION PLAN

The State Department of Education has reviewed its financial monitoring procedures pertaining to coding of interest to interest-bearing funds and has implemented routine reconciliations of these interest coding activities.

FINDING #3

Access to sensitive teacher certification information is not properly secured.

The Department uses a software system to electronically store certification documents submitted by current teachers. Each Department employee that uses this system has broad access rights to create, modify, and delete files. Several of these employees also handle and record payments, which creates a significant internal control weakness and an opportunity for errors or misappropriation to occur and go undetected. Original documents are destroyed after being scanned into the system, which further limits the ability to identify any irregularities in the records or processes. Until these original documents are destroyed, they are in unsecured boxes under the employees' desks, which allows for possible identity theft since these documents contain social security numbers, birthdates, addresses, etc.

Broad access levels were assigned to facilitate the installation process and were not amended or fully understood once the system was installed. In addition, the Department did not have user manuals or other documentation available about the system at the time we conducted our review.

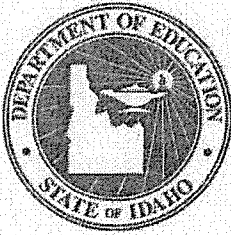
RECOMMENDATION #3

We recommend that the Department evaluate and adjust the access level of employees who use the electronic document system and limit the rights to delete and modify files as appropriate. We also recommend that employees who handle and record payments have read only access, and that all access levels are periodically evaluated and adjusted as necessary. We also suggest that certification documents be properly stored until destroyed.

AGENCY'S CORRECTIVE ACTION PLAN

The Division of Teacher Certification has reviewed and reassigned access levels in its PaperClip32 system. Access is restricted by user, offering a better internal control. The Department has also educated its staff on proper handling of sensitive documents and has processes in place to minimize exposure to this information. The Department considers this issue to be resolved.

AGENCY RESPONSE



STATE DEPARTMENT OF EDUCATION

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TOM LUNA
STATE SUPERINTENDENT
PUBLIC INSTRUCTION

July 2, 2008

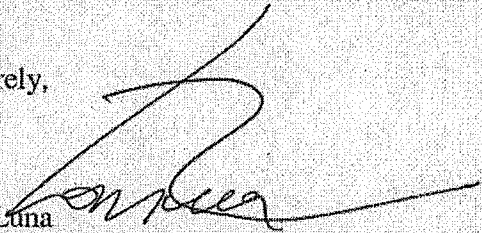
Mr. Don Berg
Division Manager of Legislative Audits
P.O. Box 83720
Boise, ID 83720-0054

RE: Audit Report Clarification

Dear Mr. Berg,

The Department of Education issued two separate response documents covering the June 30, 2005, 2006 and 2007 financial audit. The first document dated May 22, 2008 covers the corrective actions for Finding #1 and the second document dated June 30, 2008 covers the corrective actions for Finding #2 and Finding #3.

Sincerely,


Tom Luna
Superintendent of Public Instruction

APPENDIX

HISTORY

The State Department of Education was officially established as an executive agency on July 1, 1972, as a result of House Bill 442. Previously, the Department existed as an executive agency to carry out the policies and directives of the Superintendent of Public Instruction and of the State Board of Education.

PURPOSE OF AGENCY

The Department of Education's purpose is to carry out regulatory responsibilities as they relate to public schools and the State agency; provide service to school districts in terms of activities that maintain or improve educational opportunities for children; and provide leadership in the field of education.

STATUTORY AUTHORITY

The laws establishing the State Department of Education are codified in Idaho Code, Title 33, Chapter 1. Idaho Code, Section 33-125 states that the Superintendent shall serve as the Executive Officer of the Department and shall have the responsibility for carrying out policies, procedures, and duties prescribed by law or established by the State Board of Education for all elementary and secondary school matters.

ORGANIZATION

The Idaho State Department of Education is organized into five divisions. Each division is led by a deputy superintendent who oversees the employees and programs within that division. The divisions within the State Department of Education work closely together to ensure each program is meeting the needs of all Idaho students. Following is a brief description of the divisions within the State Department of Education.

Innovation and School Choice – The Division of Innovation and School Choice provides technical assistance to improve the innovation and choices available within public education. The division includes Content Areas and Instructional Services; School Choice; and Gifted and Talented Coordinator.

School Support Services – The Division of School Support Services assists Idaho schools and districts with the daily services they provide to the customers of education. The division includes the office of Teacher Certification; Coordinated School Health; HIV/AIDS; Safe and Drug Free Schools Program; 21st Century Community Learning Centers; Driver Education; and Indian Education.

Finance, Child Nutrition, and Student Transportation – The Division of Finance, Child Nutrition, and Student Transportation distributes the public school state appropriation and assists school districts and charter schools with finance, child nutrition, and student transportation services.

Student Achievement and School Accountability – The Division of Student Achievement and School Accountability provides technical assistance to schools in the areas of student achievement, special education, and Title I programs. The division includes No Child Left Behind and Special Education.

Communications and Government Affairs – The Division of Communications and Government Affairs manages the day-to-day operations of the State Department of Education and oversees legislation and communications. The division includes the Office of the Superintendent of Public Instruction, Human Resources, Accounting, and Information Technology.

Department of Education – Overview of Divisions

